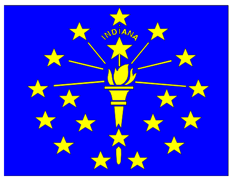
STATE OF INDIANA



Debt Management Plan & Related Policies

Indiana Finance Authority

October 16, 2014

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OVERVIEW

I. Introduction

The foundation of managing debt is a sound debt management plan. Such a plan is mandated under IC 4-4-11 which requires that the Indiana Finance Authority ("IFA") establish and periodically update a state debt management plan (the "Plan").

This Plan is intended to provide guidance in the structuring and sale of all State related debt. However, exceptions to the general principles set forth may be appropriate under certain circumstances after careful consideration of the facts of each case and can be modified at any point in the future. Additional guidelines and policies may be necessary as new state initiatives are implemented or as innovative financial products and debt structures evolve.

This Plan applies to all debt or debt-related obligations of state issuers including, but not limited to, the IFA, Indiana Bond Bank, Indiana Housing & Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans, and all state higher educational institutions (collectively, "State Issuers"). This Plan does not apply to conduit debt, which is debt issued by a State Issuer but the obligation for repayment is with the borrower rather than a State Issuer ("Conduit Debt"), except as explicitly set forth herein. This Plan does, however, apply to Conduit Debt where a State Issuer has created a moral obligation of the State to repay the debt.

II. Oversight of Debt Issuance by Public Finance Director

During the 2005 General Assembly and by Executive Order 05-04, the Public Finance Director was given statutory oversight of all state debt issuance and is the chief executive of the IFA. The IFA issues all new debt for the purposes of the Department of Transportation, Department of Administration, Family & Social Services Administration, Department of Correction, Department of Natural Resources, and State Revolving Fund Loan Programs ("SRF"). Hence, the Public Finance Director is in a position to monitor all such issues. Additionally, the Public Finance Director is a board member of the Indiana Bond Bank and the Indiana Housing and Community Development Authority and is involved in the approval process for public university debt. The other State Issuers all have a responsibility to include the IFA in decisions regarding debt issuance.

The ability of the Public Finance Director to monitor debt being issued by all State Issuers will enable this Plan to be applied on a consistent basis.

III. State Issuers

A. Indiana Finance Authority

As stated previously, the IFA issues all new debt for the purposes of the Department of Transportation, Department of Administration, Family & Social Services Administration, Department of Correction, Department of Natural Resources, and State Revolving Fund Loan Programs ("SRF"). The IFA also has been authorized to issue special purpose debt which includes Stadium and Convention Center Project debt, Indiana State Fair Commission and certain other bodies corporate and politic.

With the exception of SRF, debt issued for the other listed entities is primarily for capital projects and is appropriation-backed debt. Types of projects financed include office buildings, prisons, hospitals, parking garages, highways, airport facilities, and recreational facilities. In many cases, debt service is paid through lease-rental payments to the IFA in an amount that is sufficient to cover principal and interest, reserves, and administrative expenses.

SRF bonds are issued to leverage EPA grants, the proceeds of which provide subsidized loans to communities for drinking water infrastructure and water quality protection projects. SRF bonds are repaid from borrower loan repayments and interest earned on investments.

B. Indiana Bond Bank

The Bond Bank is empowered to issue non-appropriation backed bonds or notes, payable solely from revenue and funds that are specifically allocated for such purpose, and loan the proceeds to local governments and other qualified entities. These are usually issued to finance capital assets, but issues for other purposes such as pension bonds for public school corporations and for tax anticipation warrants for schools and local units of government are also undertaken. These are typically issued as "pooled" financings.

The Bond Bank may also issue moral obligation bonds in a total outstanding amount not to exceed $1 billion. Particular sources are designated for the payment of and security for bonds issued by the Bond Bank, and a debt service reserve fund restoration appropriation would only be requested in the event that the particular designated sources were insufficient to pay debt service.

C. Indiana Housing & Community Development Authority

The Indiana Housing and Community Development Authority ("IHCDA") (formerly the Indiana Housing Finance Authority) was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate income. IHCDA administers various federal and state housing related programs. IHCDA administers the Mortgage Revenue Bond Program for the State. Mortgage revenue bonds are issued by IHCDA to provide below market interest rate loans to first-time homebuyers. The loans are guaranteed by Ginnie Mae, Fannie Mae, or Freddie Mac and are then used to support the bond issue. IHCDA also has the authority to issue conduit bonds to facilitate the construction of affordable multi-family developments in the state. However, neither the Mortgage revenue bonds nor the conduit bonds issued by IHCDA are backed by state appropriations.

D. Indiana State Fair Commission

The Indiana State Fair Commission ("State Fair Commission") is authorized to issue fairgrounds revenue bonds to fund the cost of acquisition, construction, and improvements to fairgrounds facilities. Bonds issued by the State Fair Commission are payable solely from net revenues of the fairgrounds. Tax revenues are not pledged for payment of the bonds, and the bonds are not backed by state appropriation.

E. Ports of Indiana

The Ports of Indiana has statutory authority to offer development financing to firms statewide, not limited to port tenants, utilizing lease financing. Lease financing can be used to finance a wide variety of projects from purely private-use facilities, such as a manufacturing plant, distribution center or company headquarters building, to public and quasi-public facilities. The Ports of Indiana sells bonds to raise the funds for a capital development project. The occupant or user of the capital facility enters into a lease with the Ports of Indiana and makes lease payments toward debt service on the bonds.

These transactions are structured as non-recourse bonds meaning that if the occupant is unable to make lease payments, bondholders assume the risk, not the State or the Ports of Indiana. Neither the State nor the Ports of Indiana can ever be held liable to repay the bonds.

F. Indiana Secondary Market for Education Loans, Inc.

The Indiana Secondary Market for Education Loans, Inc. ("ISM") serves as a secondary market for post-secondary education loans. In order to finance its acquisition of guaranteed student loans, ISM is authorized to borrow money and to issue education loan revenue bonds payable solely from repayment of the acquired loans; the bonds are not backed by state appropriation.

To be eligible for acquisition, a loan must be insured or guaranteed under a federal or state program or a program of private insurance made by or on behalf of an Indiana student or a student attending an Indiana institution, or the loan is made by a lending institution with offices located in Indiana. As a result of changes in federal law, additional programs are currently being developed.

G. State Higher Educational Institutions

Indiana's public colleges and universities have several options available for financing the construction, renovation, and purchase of campus facilities. In part, the method of financing a project depends on the function of the project. Facilities that serve academic or administrative functions are generally funded by state appropriations, fee-replaced bonding, gift funds, or institutional fund balances. Currently, the overwhelming majority of state-funded facilities have been financed through fee-replaced bonding, so called because the institutions must collect student fees at a level necessary to meet debt service obligations, and the fees are then "replaced" by state appropriations equal to the required debt service payments. Projects that are funded by cash appropriations or through the issuance of bonds, with the understanding that the State will appropriate debt service to retire the bonds, must be authorized by the General Assembly. Projects that are not financed through state funding or mandatory fees do not require General Assembly authorization.

Most projects that serve auxiliary functions are funded through gift funds, operating revenue, or student fees. Examples include residence halls, parking garages, auditoriums and performance facilities, student unions, and athletic facilities.

IV. Other Components of Debt Management Plan

The statute requiring the establishment of this Plan also calls for discussions regarding:

A. Current outstanding debt of State Issuers
B. Projected future debt obligations
C. Impact of debt issued by State Issuers on the state budget
D. Recommendations to the Budget Director, the Governor, and the General Assembly with respect to the financing of capital projects

Please refer to the report *Indiana: State Debt Overview***,** which is updated annually, for information on these topics. The latest version of this report can be found on the IFA's Investor Relations website: http://www.in.gov/ifa/2628.htm.

PURPOSES FOR WHICH DEBT IS ISSUED

I. New Money

The purposes for issuing new money bonds vary, but such issuances should be undertaken prudently and only for purposes for which the State Issuer has been authorized statutorily, after obtaining appropriate approvals from their respective board.

Certain State Issuers, such as the IFA, will issue debt primarily to finance capital assets on behalf of state agencies. Types of projects financed include office buildings, prisons, hospitals, parking garages, highways, airport facilities, and recreational facilities. Universities have needs for financing to construct new facilities such as dormitories and classrooms and to maintain their current buildings in good working order.

Debt issuance by other State Issuers provides financing for essential public purposes other than capital assets. Examples of these programs are student loans for which Indiana Secondary Market for Education Loans provides funding, home mortgages that ultimately are funded by Indiana Housing and Community Development, and universities for research and development or to create energy savings in their facilities.

In limited situations, the General Assembly can direct that special purpose bonds be issued. Examples would include the Lucas Oil Stadium and Indiana Convention Center financings, which were approved by the General Assembly and required specialized structuring.

The use of debt to fund operating expenses should be used judiciously. Additionally, the use of available cash to fund all or a part (including cost of issuance of debt and interest during construction) of the cost of capital improvements should be explored before proposing the issuance of long-term debt for such purposes. State Issuers are encouraged to maximize pay-as-you-go financing. In the event that capital assets with anticipated useful lives of less than five years (such as equipment) are being funded, utilizing cash or tax-exempt leasing to most economically finance these types of assets should be considered.

II. Refunding Issues

Generally, State Issuers issue refunding bonds to achieve debt service savings on their outstanding bonds by replacing callable, high-interest rate debt with lower interest rate debt (an "*economic refunding*"). However, refunding bonds may also be issued to restructure debt or modify troublesome covenants contained in the bond documents. Unless being done for debt restructuring purposes, the final maturity of debt issued for refunding purposes should not exceed the final maturity of the debt being refunded.

A State Issuer can decide to refund callable bonds either within 90 days of or anytime after their call date ("current refunding") or in excess of 90 days before their call date ("advance refunding"). According to federal tax law, an issuer of tax-exempt bonds may only issue tax-exempt advance refunding bonds once to refinance bonds issued after 1986. There is no similar limitation for tax-exempt current refunding bonds. Due to the restriction on advance refunding bonds, debt service savings should generally have a minimum target savings level measured on a present value basis versus the par amount of the bonds being advance refunded.

For a detailed discussion of advance refunding issues, please refer to the *Refunding Debt Issuance Policy* contained herein.

POLICIES

DEBT ISSUANCE POLICY

I. Purpose

This policy is intended to standardize and rationalize the issuance and management of state-related debt, thereby ensuring that State Issuers (defined below) will retain the ability to incur, when necessary, debt and other long-term obligations at favorable interest rates for capital improvements, facilities, equipment, and program funding necessary for essential services.

II. Applicability

This policy applies to the Indiana Finance Authority ("IFA") and other bodies corporate and politic (collectively, "State Issuers") including, but not limited to, the Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans, and all state higher educational institutions.

Any State Issuer may adapt its own debt issuance policy in lieu of this policy, as long as such alternative policy is no less restrictive than this policy or is approved by the Public Finance Director.

III. Policy

A. Method of Sale

State Issuers should periodically distribute requests for proposals (RFP) or qualifications (RFQ) to qualified investment banking firms. Based on the submissions in response to those requests, it is recommended that State Issuers select a group of firms among whom the position of senior and co-senior underwriter should be rotated on State Issuers' forthcoming issues of bonds. State Issuers should reserve the discretion to select the most appropriate senior and co-senior underwriter for each issuance and, in exercising that discretion, State Issuers should strive to reward the special efforts and initiative that particular firms may have shown in coming forward with innovative proposals and investing in relationships through unbilled work. State Issuers should include other firms that submit suitable responses in the underwriting groups for bond issues, as well. State Issuers should generally sell bonds through negotiation with the senior underwriter for a series of bonds and should utilize the services of its staff or financial advisor to provide assurance that the interest rates, purchase price, and other terms proposed by the senior underwriter are fair under the current market conditions and otherwise meet the State Issuers' criteria and objectives.

Notwithstanding the foregoing and if permitted by applicable law, State Issuers may elect to sell any particular issuance of bonds through competitive bidding rather than through negotiation if they determine that doing so would, under the circumstances, enhance the likelihood of their achieving the optimal terms for the bonds. If State Issuers choose to use competitive bidding, bonds should be awarded based on the lowest true interest cost.

Prior to and during the bond sale, the IFA should lend expertise to a State Issuer that only occasionally issues debt.

B. Structuring Debt

1. <u>Costs of Issuance</u>

For all types of debt issuance, efforts should be made to minimize the costs of issuance without affecting the integrity of the issue. Requiring providers of the services needed for a debt issue to compete is a valuable tool to ensure that the best fee available has been obtained. These providers would include, but are not limited to, underwriter, bond counsel, financial advisor, trustee, and credit enhancer. Therefore, RFPs or RFQs should be issued on a periodic basis, with a recommendation of no less than every four years.

There are situations where continued use of the same provider is in the best interest of the State Issuer. Examples include expertise in certain types of bond issues; refundings where familiarity with the original issue is beneficial; discounted fees based on multiple series of issues; etc. State Issuers should periodically verify these potential benefits.

In addition, efforts should be made to use Indiana-based, minority business enterprises (MBE), and/or women business enterprises (WBE), without affecting the integrity of the issue and unnecessarily increasing the costs of the issue.

2. <u>New Money</u>

a. Determining the Final Maturity

For new money issues that finance capital projects, the final maturity of the debt should not exceed the estimated useful life of the assets being financed and, if possible, should not exceed 20 years from the issuance date unless significant reasons can be demonstrated to justify a longer term. The weighted average life of the issue should also be taken into consideration, with a life of 10 years or less being the target.

Program and special bonds (e.g., Indiana Housing and Community Development and Indiana Secondary Market for Education Loans issues) will have final maturities which tie directly to the underlying loans funded; therefore, final maturities in excess of 20 years may be necessary.

b. Structuring Annual Debt Service

In general, new money bonds should be structured so that the aggregate annual debt service payments of all outstanding debt are relatively level year-to-year and are below the anticipated amounts of dedicated funds to be received for payment of the debt service. Annual debt service should be viewed in combination with other parity debt when these factors are weighed. Other considerations, such as budgetary impact and relevant needs of the State should also be taken in to account.

3. <u>Refundings</u>

Please see the *Refunding Debt Issuance Policy*.

4. <u>Redemption or "Call" Features</u>

A significant tool in structuring tax-exempt bonds is the ability to make the bonds callable prior to final maturity. This provides the advantage of enabling the State Issuer to achieve savings through the issuance of refunding bonds in the event that interest rates decline and/or restructure the amortization to better match anticipated amounts of dedicated funds. The standard call feature allows bonds to be called at par after 10 years, but prior to their maturity. Although the ability to refund bonds at that time is advantageous, there may be situations where a State Issuer may realize greater benefits by extending or shortening that call feature, or in limited situations, issuing non-callable bonds.

State Issuers should include an extraordinary redemption on each bond issue unless doing so unjustifiably increases the interest cost and/or doing so provides no additional value.

5. <u>Tax-Exempt and Taxable Debt</u>

State Issuers have traditionally issued tax-exempt debt, which results in significant interest cost savings compared with the interest cost on taxable debt. Accordingly, State Issuers should seek a debt structure that takes advantage of the exemption from federal income taxes unless prohibited by federal law, applicable federal regulations, in situations where taxable debt is the only alternative (e.g. when volume cap is not available), or when a State Issuer can take advantage of alternative cost-effective debt programs, such as the programs previously offered by the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"). In the event that taxable and tax-exempt debt is issued concurrently, the debt should be structured with a combination that minimizes the present value of debt service costs.

Congress authorized or expanded several alternatives for financing governmental infrastructure projects under the Stimulus Act, including the introduction of the direct-pay Build America Bonds ("BABs"). BABs were an alternative to traditional tax-exempt bonds for new money financings of governmental capital projects, but not for working capital or refundings. BABs were issued as taxable bonds and the State Issuer is entitled to receive a payment from the U.S. Department of the Treasury equal to a percent of the interest paid on the bonds (the "Subsidy Payment") until maturity.

State Issuers with outstanding BABs should exercise caution and have a full understanding of the differences between BABs and tax-exempt bonds. Items that should be taken into consideration include, but are not limited to:

- Assuring a process is in place for filing IRS Form 8038-CP to request the Subsidy Payment and to verify that the Subsidy Payment is received.
- Consider the implications of an IRS compliance check and the possibility of a comprehensive IRS audit.
- Periodically quantify the aggregate value of the federal subsidy over the life of the bonds by summing each expected Subsidy Payment. This value will enable the State Issuer to analyze the monetary amount at risk of potential changes in the subsidy rate if retroactive changes are made.
- Periodically consider the risk that the U.S. Department of the Treasury could offset the Subsidy Payment by any outstanding amount a government entity owes the federal government for any reason.

Taxable market conventions, are different than municipal market conventions in many respects. State Issuers should keep up-to-date on the latest practices in order to obtain the best pricing. The following items should currently be considered:

- Particular attention should be paid to the coordination of the book-running senior manager's taxable and tax-exempt underwriting desks in order to effectively market to the largest number of quality buyers.
- State Issuers should give special thought to the education needed on the issuer's structure and credit for analysts and investors who are not accustomed to the municipal bond market.
- Conventional call provisions in the taxable market can be materially different from those included in the tax-exempt market. State Issuers should consider the economic benefit/cost of a make-whole call or issuing non-callable bonds, each common of taxable bonds, instead of the par call structure that is typically seen in the municipal market.
- State Issuers may benefit from using a blend of tax-exempt bonds and taxable bonds on a particular deal. As a result, analysis should be completed immediately prior to the bond sale as to what structure would produce the lowest cost for a given maturity.
- The underwriting spreads on a taxable deal should not be materially higher than those seen on a tax-exempt deal absent extraordinary circumstances. State

Issuers should evaluate the all-in true interest cost, including underwriting spreads, when deciding on a tax-exempt and/or taxable structure.

- State Issuers should provide underwriter compensation on a net designated basis in order to foster competition within the selling group unless current market dynamics warrant the use of a group net compensation structure for optimal bond sales.
- Fees for professional services, including bond counsel, financial advisors, and disclosure counsel, should not be materially higher than those seen on a tax-exempt deal given the development of the taxable bond market.

6. Credit Enhancement

Credit enhancement products, such as liquidity facilities and bond insurance, are used primarily to achieve interest cost savings through increased marketability. The purchase of credit enhancement products is permissible provided that the purchase produces net present value savings.

a. Bond Insurance

Beginning in late 2007, many bond insurers experienced rating downgrades creating potentially permanent changes in the advisability of a State Issuer purchasing bond insurance. First, the quality of the insurer must now be carefully analyzed given that in the recent market turmoil bondholders were looking to the rating of the insurer, not to the underlying rating of the issuer, as the applicable rating. Consequently, in many cases, a highly-rated issuer was penalized due to the insurer's downgrade. Secondly, the remaining bond insurers are in a position to charge substantially higher premiums given the reduced level of highly-rated competition. State Issuers must more closely analyze the reduced net debt service savings achieved in relation to the upfront cost and onerous covenants imposed by insurers.

b. Liquidity Facilities

The State's access to credit enhancement products is limited, particularly in regard to liquidity facilities. As a result, State Issuers should first explore the option of self-liquidity before approaching external banks for liquidity facility agreements. State Issuers must weigh the potential problems associated with facility renewal, including, but not limited to, increased fees and lack of supply, versus the benefits of debt service savings. At times, it may be fiscally prudent to issue debt without credit enhancement or to issue fixed rate debt in lieu of variable rate demand bonds ("VRDBs") to avoid the need for a liquidity facility, even though the use of credit enhancement would result in debt service savings. State Issuers should consult with the Public Finance Director before pursuing external bank liquidity to ensure that this limited resource is used in the most efficient manner across the State.

Please note that there can be onerous covenants in liquidity facility agreements. As a result, State Issuers must engage experienced counsel to ensure the terms of any liquidity facility agreement are fair and appropriate.

7. Use of Variable Rate Debt and Related Products

As contrasted with fixed-rate bonds, bonds may also be issued with variable rates of interest. Issuing debt other than fixed rate bonds requires consultation with the Public Finance Director, who will evaluate the merits of the proposed variable rate financing. Factors to be considered include, but are not limited to the type of variable rate debt in question, the mix of the State Issuers' variable rate/fixed rate debt portfolio, and the additional expenses involved in the issuance and maintenance of variable rate debt.

A significant advantage of variable rate bonds is that they typically result in a lower average interest rate than long-term fixed rate bonds. A disadvantage is that the interest rate on the variable rate bonds may increase over time to levels higher than the rate which could have been obtained on fixed rate bonds. Selling variable rate bonds also leads to uncertainty regarding the State's annual budget requirements for debt service and the total cost of the financing over the life of the bonds. State Issuers should make adequate provisions for the financial and budgetary risks associated with variable rate debt. It is suggested that a State Issuer annually budget using a rate of interest at least two standard deviations higher than the historical average of a representative variable rate index.

The decision to use variable rate bonds is further governed by a number of considerations including the variable rate capacity of the State (including the State's cash asset position), the ability to obtain a liquidity instrument at a reasonable rate, the capacity limitations faced by the liquidity providers, the anticipated savings versus fixed-rate bonds, budgetary impact, and administrative costs.

It is suggested that a State Issuer limit its variable rate exposure to 20 percent of its outstanding debt. Within the variable rate portfolio, a State Issuer should continually seek to diversify its line-up of remarketing agents, with the option to change agents quickly due to poor performance. It is suggested that no more than 50 percent of a variable rate portfolio greater than $100m be remarketed by a single remarketing agent. Additionally, a State Issuer should consider diversifying the period between rate resets among daily and weekly, with the ability to change modes quickly based on market conditions. Rate resets should be tracked continually and measured relative to an index that tracks rates of similar securities (e.g. SIFMA is currently the most applicable index for VRDBs) to ensure optimal performance from the remarketing agent and to measure changes in market demand for these bonds. A State Issuer should weigh the effect of remarketing agent fees on debt service savings when analyzing potential agents and reset periods.

Due to the lack of investor demand and high risk associated with the product, State Issuers should avoid using auction rate securities as a variable rate mode and should consult with the Public Finance Director before using any alternative variable rate structure.

The use of interest rate caps and other derivative instruments such as interest rate swaps can mitigate the budgetary impact on the State. The uses and exposure resulting from these derivative instruments must be evaluated by the State Issuer's staff and presented to its board no less than semiannually. Also to be considered in the cost of issuing variable rate debt are the ongoing administrative costs and the cost of technical expertise needed to monitor and manage variable rate exposure including any associated derivatives. State Issuers should consult with the Public Finance Director before using any derivative instrument.

For a detailed discussion of derivatives, please refer to the *Derivative Policy* contained herein.

8. Selecting a Date of Issuance

State Issuers should strive to ensure that bonds price appropriately and have sufficient investor demand. In order to best ensure consistent pricing, a State Issuer, utilizing the advice of its underwriter and financial advisor, should try to avoid pricing bonds at times when the market may be especially volatile. As a result, State Issuers should monitor the calendar of major economic releases, as well as the calendar of other tax-exempt and taxable bond pricings. In general, State Issuers should attempt to avoid pricing during the release of major economic data or the pricing of other large or conflicting State-level bond issuances.

Finally, a State Issuer's financial advisor and/or in-house expert, if existing, should be present during pricing to ensure proper structure and execution.

9. Post-Pricing Communication

In order to share and leverage relevant and timely market information across the State, State Issuers should promptly send the IFA documentation from any bond issue including, but not limited to, the official statement and final pricing information.

C. Use of Moral Obligation

Execution by the IFA and Indiana Bond Bank ("IBB") of any other agreement that creates a moral obligation of the State to pay all or part of any indebtedness issued by the IFA and IBB is subject to review by the budget committee and approval by the Budget Director. The IBB is statutorily limited to $1 billion of moral obligation debt.

Specific guidelines must be followed in moral obligation deals between the State and a private organization, including, but not limited to, the evaluation of the total exposure to the State, industry analysis on the private organization, evaluation of the projected benefits to the State, and the requirement for the private organization to post collateral.

The IBB should coordinate with the Public Finance Director for delivery of an updated Appendix A – Financial and Economic Statement for the State of Indiana for use in the offering document for the debt backed by the moral obligation of the State to pay all or any part of the indebtedness.

D. Disclosure

Please see the *Disclosure Policy*.

E. Credit Objectives

In order to access the credit markets at the lowest possible borrowing cost, it is recognized that credit ratings are critical. Therefore, State Issuers should strive to maintain or improve current credit ratings without adversely impacting levels of debt which may be issued for any particular program.

Advice and recommendations from rating agencies by State Issuers should be sought early in the debt issuance process regarding such issues as debt structure, total debt mix (i.e., variable rate vs. fixed rate), security for the bonds, etc. to ensure preservation of a superior credit rating.

Not less than annually (generally after the Legislative Session has concluded) the Public Finance Director and Budget Director should provide an update to the major credit rating agencies covering such topics as the State's debt profile, economic, fiscal and demographic conditions, and major legislative actions.

All requests for information from a State Issuer by a credit rating agency should be met promptly and accurately. State Issuers should not participate in any discussions with the rating agencies related to the State's credit without the approval of the Public Finance Director.

REFUNDING DEBT ISSUANCE POLICY

I. Purpose

This policy is intended to standardize and rationalize the issuance and management of state-related refunding debt issues, thereby ensuring that State Issuers (defined below) will be in a position to apply objective measures to potential refunding opportunities and be able to take action quickly when interest rates are favorable.

II. Applicability

This policy applies to the Indiana Finance Authority ("IFA") and other bodies corporate and politic (collectively, "State Issuers") including, but not limited to, the Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans, and all state higher educational institutions.

Any State Issuer may adapt its own refunding debt issuance policy in lieu of this policy, as long as such alternative policy is no less restrictive than this policy or is approved by the Public Finance Director.

III. Policy

In order to be able to adapt to changing interest rate environments, a State Issuer must be prepared to issue refunding bonds to achieve debt service savings in a timely manner. Thus, certain refunding criteria must be met to accomplish an economic refunding.

A. Savings Threshold

A State Issuer's primary refunding metric is the net present value (NPV) of savings. The base NPV savings targets are 3.00% of the par amount of the refunded bonds and $3 million for a refunding at par using traditional callable, fixed rate debt. The $3 million savings target may be adjusted based on a particular organization's materiality test and with notification of the Public Finance Director. In general, the NPV should be calculated using the arbitrage yield of the refunding bonds. Even when considering non-traditional refundings, a State Issuer should always review the traditional, callable refunding as a base case scenario. To the extent possible, evaluations of refunding proposals should be made on a maturity-by-maturity basis. Given that rates change constantly, refunding opportunities need to be evaluated not only at current levels, but also at less favorable rates. Reviewing a sensitivity range of up to 25 bps is considered prudent. The pricing spread to MMD should be based on historical norms unless "locked" by the underwriter.

In general, State Issuers should at all times retain its call options. While a 10-year call is standard, a State Issuer would consider different call periods (e.g. 8- to 12-year calls) in order to achieve additional savings and/or restructuring flexibility. In order to give up any call, a State Issuer would typically want to see a dramatically lower cost (e.g. an all-in cost 50 bps or more below that of the equivalent callable issuance).

B. Adjustment for Escrow Length

Because the value of a call is directly related to the time remaining until its expiration, a State Issuer should consider adjusting the 3.00% overall target based on the time between the issue date and the call date, considering an escrow period of 12 to 24 months as standard, requiring no adjustment. Longer or shorter escrow periods will result in adjustments as follows:

Escrow Period	Adjustment to target NPV of 3.00%
less than 90 days (current)	minus 1.00%
less than 1 year	minus 0.50%
2 years to less than 3 years	plus 0.50%
3 years to less than 4 years	plus 0.75%
4 years to less than 5 years	plus 1.00%
5 years to less than 6 years	plus 1.25%
6 years to less than 8 years	plus 1.50%
8 years to less than 10 years	plus 1.75%
10 years or greater	plus 2.00%

C. Adjustment for Interest Rate Levels

The value of a call is directly related to interest rate levels, so an adjustment to the 3.00% overall target should be considered based on the current level of rates relative to historical levels. The appropriate rate will be the one most closely approximating that of the refunding bonds being evaluated. For a tax-exempt, fixed-rate issuance, this will typically be an MMD rate based on the average life of the refunding bonds. A current rate in the 40th to 60th percentile based on a rolling 20-year period is considered standard, requiring no adjustment. Higher or lower rates will result in adjustments as follows:

Current rate relative to 20-year history	Adjustment to target NPV of 3.00%
lowest 10^{th} percentile	minus 2.00%
10^{th} to 20^{th} percentile	minus 1.50%
20^{th} to 30^{th} percentile	minus 1.00%
30^{th} to 40^{th} percentile	minus 0.50%
60^{th} to 70^{th} percentile	plus 0.50%
70^{th} to 80^{th} percentile	plus 1.00%
80^{th} to 90^{th} percentile	plus 1.50%
highest 10^{th} percentile	plus 2.00%

In addition, a State Issuer should request from underwriters their own evaluation of the efficiency of any refunding that they are proposing.

All refundings should seek to minimize negative arbitrage, and should assume the use of SLGS securities unless explicitly noted. If the use of open-market securities is proposed, a similar analysis using SLGS should be provided for comparison.

D. Determining the Final Maturity

Unless being done for debt restructuring purposes, the final maturity of debt issued for refunding purposes should not exceed the final maturity of the debt being refunded.

E. Structuring Annual Debt Service and Related Savings

In general, refunding bonds should be structured so that the annual debt service payments of the new debt will not exceed the annual debt service payments of the refunded debt in any budget year. While level savings is often the preferred method for structuring refunding bonds, other considerations, such as budgetary impact or the combined debt service of the refunding issue and other outstanding issues, should also be considered. Structures for both realizing budgetary savings (accelerated savings) and deferred savings should be considered based on the impact on total savings and the needs of the State.

F. Other Considerations

Derivatives (e.g. swaps and options) pose additional risks relative to "plain vanilla" refundings, for which the State Issuer must be rewarded. In general, the NPV target will be increased by 2% for a derivative-based refunding, relative to the fixed-rate target. An additional 1% will generally be required if the swap involves tax risk or options. The NPV calculation for a swap-based refunding should reflect a termination option (7-10 year) owned by the State Issuer that is comparable to a fixed rate call option. State Issuers will need to consult with the Public Finance Director before proceeding with any derivative-based refunding.

In order to evaluate the impact of using premium bonds, all proposals involving premium bonds should also contain a refunding evaluation at par for those maturities beyond the call date, which would be considered as a base case in evaluating the attractiveness of the premium bonds. All refunding evaluations should include the best estimate of issuance costs, including the State Issuer's fees, and the use of a derivative advisor when synthetic products are involved.

Given that it is more cost-efficient to combine a refunding issue with a new-money issue, a State Issuer may prefer to delay a refunding that would otherwise meet the objectives when a new-money issue is expected. The expected savings from combining the issues should be evaluated relative to the potential cost of an adverse change in interest rates.

To some degree, a State Issuer's needs change over time, and therefore, a State Issuer may be more or less inclined to pursue a refunding in order to generate current cash proceeds. This need should not generally impact the savings target.

Given that indentures contain numerous restrictive covenants, State Issuers may be more inclined to pursue a refunding in order to remove an onerous covenant or achieve some similar objective. Quantitatively, this might significantly lower the savings target. The Public Finance Director should be consulted if a refunding is pursued for this reason.

STATE HIGHER EDUCATIONAL INSTITUTIONS DEBT APPROVAL POLICY

I. Purpose

This policy is intended to standardize the various processes used by state institutions of higher education in seeking approval for major projects and for the issuance of debt, giving effect to the differences between applicable statutes where needed.

II. Applicability

This policy applies to all seven state institutions of higher education (either the "State University" or "State Universities"), specifically Ball State University, Indiana State University, Indiana University, Ivy Tech Community College, Purdue University, University of Southern Indiana, and Vincennes University.

III. Policy

Currently, State Universities are authorized to incur indebtedness and develop major projects under one or more of the following sets of statutes.

A. Student Fee Debt

Certain buildings, facilities and equipment may be acquired, built, and financed under IC 21-34, chapters 6-10. The General Assembly must approve both the projects and their financings, with a few exceptions, and may also authorize "fee replacement" appropriations when needed. For debt issued as Build America Bonds, the "fee replacement" appropriations will only be in amount sufficient to cover the principal payments and interest costs net of the federal subsidy. Administrative approvals are discussed below. The related bonds are payable from and secured by student fees.

B. Auxiliary Facilities Debt

Auxiliary facilities (such as parking, housing, dining, and certain research facilities) may be acquired, built, and financed under IC 21-35, particularly chapters 3 and 5. Bonds are payable from and secured by specified categories of revenues -- i.e., "net income" of certain projects or systems. No General Assembly approvals are required. Administrative approvals are discussed below. The General Assembly has also given specific authorizations for other revenue-type projects to be built and financed under these statutes on occasion.

C. Certificates of Participation (COPs)

COPs may be issued on behalf of State Universities under IC 21-33-3-5. General Assembly approval is not required, but administrative approvals are discussed below. COPs are payable from "available funds," excluding state appropriations, student fees, etc.

D. Temporary Borrowings

Temporary borrowings are authorized under IC 21-32-2 and must follow the provisions of the underlying permanent financing statutes as described in the prior paragraphs, subject to all of the approval requirements applicable to such projects.

IV. Policy

A. Project and Financing Approvals

The State's administrative review processes encompass both project approvals and financing approvals. The financing plan should be discussed at the same time the project approval request is made. It is prudent to understand how a project is expected to be financed and how it fits within the State University strategic and financial plan when considering the request to authorize the project.

B. Annual Update

Representatives of each State University are required to meet at least annually with representatives of the IFA, the State Budget Agency ("SBA"), and the Commission for Higher Education ("CHE"). The purposes of this meeting are (i) to review the university's existing debt outstanding, (ii) to discuss the university's long-term capital needs, including project and financing plans, and (iii) to consider in more detail any debt issuances expected to occur prior to the next such meeting.

C. Administrative Approval Process

The president of a State University must forward to the Governor (with copies to the SBA, the CHE, and the IFA) a request for authority to proceed with project development, together with a description of the project and a preliminary plan of finance.

The CHE will review the project description at a public meeting, and the IFA will review the plan of finance, and both will make recommendations to the Budget Director. Based on those recommendations, the Budget Director will choose whether or not to put the project before the SBC. The SBC reviews the various projects on its agenda at each regular meeting, and its meeting minutes are signed by each member, the Budget Director, and the Governor.

After approval by the SBC, the State University may pursue specific financing arrangements, discussing any significant changes with the SBA and IFA. When the State University is ready to proceed with a bond financing, it must request approval to issue such bonds from the Budget Director. At that point, the Budget Director will request a final review of the plan of finance for the proposed bond issuance by the IFA, after which a final authorization letter, reflecting the final required approval, will be issued to the State University. This request must be made by the State University prior to the printing of a preliminary official statement, and the final authorization of the Budget Director must precede the bond sale. At a minimum, the plan of finance should include i) a history of the approval dates for all projects to be financed, ii) a list of working group members (underwriters, financial advisors, legal counsel), iii) all relevant details of the proposed financing structure (or multiple structures if flexibility is required through the pricing date), iv) a detailed estimate of costs of issuance, v) estimated pricing of the bonds relative to an appropriate index (MMD, treasuries, SIFMA), and vi) estimated cash flows (on both a continuous and a fiscal year basis), including details regarding any cash flows expected to be fee-replaced.

State administrative approvals are evidenced by signed minutes of the SBC meeting, including signatures by at least a majority of SBC members, the Budget Director and the Governor, as well as the financing authorization letter from the Budget Director.

D. Legislative Approval Process

As mentioned above, Student Fee Debt requires prior approval of the General Assembly. This process is commenced with the inclusion of a project in a capital budget request by a State University, typically in the year prior to a "long session" of the General Assembly, including a proposed time frame for the project's commencement. The CHE reviews capital budget requests and assigns priorities to each project, which it reports to the State. Authorizations for projects and bonds are generally provided in the biennial budget bill approved by the General Assembly. The General Assembly may also designate a project financing as being eligible for fee replacement, and designate both the extent of fee replacement and the first biennium of such eligibility. No fee replacement may be provided without specific authorization by the General Assembly and specific appropriations for that purpose. General Assembly approvals for these projects must occur prior to the Governor's letter, described above in part C.

Auxiliary Facilities Debt, COPs and certain limited types of student fee obligations (such as small equipment financings, qualified energy savings project financings, grant anticipation notes and certain R&R financings) do not require prior General Assembly approval. However, the request for authority to proceed with project development, described in Section C above, may be sent to the Governor when the project is sufficiently advanced in planning to warrant consideration.

Legislative approvals are evidenced by the authorizing statutes.

E. Special Rules for Refundings

No legislative approval is required for refundings.

Notwithstanding Part C, Student Fee Debt refundings or advance refundings only require the approval of the Budget Director, on behalf of the SBA, as long as the following requirements are met. The issuing State University must provide a letter to the IFA, representing that the State University is specifically requesting a refunding or advance refunding of student fee debt under IC § 21-34-6-6(b) and the letter shall make a representation that the issuing State University's board of trustees finds that the refunding or advance refunding will benefit the State University because a net savings to the State University will be effected or the net present value of principal and interest payments on the bonds is less than the net present value of the principal and interest payments on the outstanding bonds to be refunded.

Auxiliary Facilities Debt refundings only require the approval of the Budget Director on behalf of the SBA, as long as the refundings comply with the Refunding Debt Issuance Policy herein.

POST ISSUANCE COMPLIANCE POLICY

I. Purpose

The purpose of this Policy is to enable State Issuers (as defined below) to comply with the post issuance compliance requirements of the Internal Revenue Code of 1986, as amended, (the "Code") with respect to all tax-exempt bonds they issue.

II. Applicability

This policy applies to the Indiana Finance Authority ("IFA") and other bodies corporate and politic (collectively, "State Issuers") including, but not limited to, the Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans, and all state higher educational institutions.

Any State Issuer may adapt its own post issuance compliance policy in lieu of this policy, as long as such alternative policy is no less restrictive than this policy or is approved by the Public Finance Director.

III. Policy

To carry out the purpose stated above and to protect the bonds' tax exempt status, State Issuers must maintain a system of record keeping and reporting to monitor and analyze the investment and use of bond proceeds, the use of facilities financed with bond proceeds and calculate arbitrage rebate liabilities as required by the Code. With respect to the calculation of arbitrage rebate liabilities, State Issuers should carefully track the following information for each tax-exempt bond issue: (i) the frequency of rebate calculation, (ii) the date of the last calculation, (iii) the amount of any rebate payment, and (iv) the next calculation date.

Because of the complexity of post-issuance compliance, especially the arbitrage rebate regulations, and the severity of non-compliance penalties, State Issuers should contract with Bond Counsel or other qualified experts to prepare or review a Post-Issuance Compliance Plan and for arbitrage rebate services.

The Post-Issuance Compliance Plan should enable the State Issuer to evidence compliance with all federal laws and regulations applicable to their particular type of tax-exempt bonds.

The rebate service provider should maintain a system for computing and tracking the arbitrage rebate liability and should notify the State Issuer within 60 days of fiscal year end of the amount of accrued liability. The rebate service provider should also be responsible for notifying the State Issuer two months in advance of when a rebate of excess arbitrage earnings is due to the Internal Revenue Service.

Each State Issuer should appoint a person to be responsible for ensuring full compliance with all applicable post-issuance and arbitrage rebate compliance requirements.

DISCLOSURE POLICY

I. Purpose

SEC Rule 15c2-12 (the "Rule") requires (i) the delivery of an official statement that contains the terms of the bonds and financial and operating data of the issuer and (ii) the timely filing of annual information, general purpose financial statements (when and if available), and material event notices. This Policy ensures that the Rule is complied with so that investors are adequately informed about the State's and/or the State Issuer's (defined below) credit and financial position.

II. Applicability

This policy applies to the Indiana Finance Authority ("IFA") and other bodies corporate and politic (collectively, "State Issuers") including, but not limited to, the Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans, and all state higher educational institutions.

Any State Issuer may adapt its own disclosure policy in lieu of this policy, as long as such alternative policy is no less restrictive than this policy or is approved by the Public Finance Director.

III. Policy

State Issuers should comply fully with the Rule and any other applicable federal or state regulations. Any publicly available statements or reports that include a discussion of the state's economic and fiscal condition should be approved by the Public Finance Director.

Each State Issuer should appoint a person to be responsible for ensuring full compliance with the Rule, and notice should be made to the Public Finance Director annually that compliance has been met.

DERIVATIVE POLICY

I. Purpose

This section sets forth the derivative policy of State Issuers, as defined below. This policy applies to any interest rate swap or financial derivative agreement ("Derivative Agreement") between State Issuers and qualified counterparties and serves to ensure that the objectives listed below will be met.

II. Applicability

This policy applies to the Indiana Finance Authority ("IFA") and other bodies corporate and politic (collectively, "State Issuers") including, but not limited to, the Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans, and all state higher educational institutions.

Any State Issuer may adapt its own derivative policy in lieu of this policy, as long as such alternative policy is no less restrictive than this policy or is approved by the Public Finance Director.

III. Policy

A. Purpose

State Issuers may enter into a Derivative Agreement to better manage assets and liabilities and take advantage of market conditions to lower overall costs and reduce interest rate risk pursuant to state law.

However, this policy will govern the use by State Issuers of Derivative Agreements, such as swaps, swaptions, caps, floors and collars ("Derivatives"). The failure of a State Issuer to comply with any provision of this policy will not invalidate or impair any Derivative Agreement.

State Issuers are adopting this Derivative Policy (the "Policy") to define and describe guidelines for approaching, using, monitoring and managing various types of Derivative Agreements. This Policy is designed to supplement, and to be in conformity with, the various legal requirements applicable to State Issuers' use of Derivative Agreements.

State Issuers recognize that changes in the capital markets and other unforeseen circumstances may produce situations that are not covered by this Policy or that make guidelines in this Policy inappropriate. In such circumstances, State Issuers should attempt to conform, to the extent possible, with the purposes of this Policy.

The incurring of obligations by State Issuers involves interest rate payments and other risks that may be offset, hedged, or reduced by a variety of financial instruments. As a result, it may be fiscally prudent for a State Issuer to utilize a Derivative Agreement to better manage its assets and liabilities. State Issuers may execute a Derivative Agreement if the transaction can be expected to result in one of, but not limited to, the following:

1. Reduced exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from a State Issuer's overall asset/liability balance.

2. Result in a lower expected net cost of borrowing with respect to a State Issuer's debt or achieve a higher expected net rate of return on investments made in connection with, or incidental to the issuance, incurring, or carrying of a State Issuer's obligations or a State Issuer's investments. In order to properly determine expected savings when compared to the issuance of a traditional fixed rate bond (which normally contains par call dates), a fixed-payer interest rate swap should be priced with a matching early termination option. The swap need not be executed with such an early termination option, but the cost of the option should be known in order to compare a fixed rate bond issue to variable rate debt matched with a swap (also referred to as "synthetic fixed rate debt").

3. Manage variable interest rate exposure consistent with prudent debt practices.

4. Manage exposure to changing market conditions in advance of anticipated bond issues (through the use of forward hedging instruments).

5. Achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets; for example, entering into a swaption with an upfront payment.

6. Access the capital markets more rapidly than may be possible with conventional debt instruments.

7. Manage State Issuers' exposure to the risk of changes in the legal and regulatory treatment of tax-exempt bonds.

State Issuers acknowledge that synthetically fixing the cost of funds by way of interest rate swaps mitigates, but does not eliminate, interest rate risk due to risks factors described in *Risk Management: Exposure Associated with Derivatives* below.

B. Considerations

A decision to enter into a Derivative Agreement should include consideration of the following:

1. The appropriateness of the transaction for a State Issuer based on the balance of risks and rewards presented by the proposed transaction;

2. Potential effects that the transaction may have on the credit ratings assigned to State Issuers by the rating agencies;

3. The potential impact of the transaction on any areas where a State Issuer's capacity is limited, now or in the future, including the use of variable-rate debt, bank liquidity facilities, and bond insurance;

4. The ability of State Issuers to handle any administrative burden that may be imposed by the transaction, including accounting and financial reporting requirements;

5. The advice of a Designated Qualified Independent Representative (as defined below) as to the potential risk of any proposed Derivative Agreement, see *Risk Management: Exposure Associated with Derivatives* and *Compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010* below;

6. Other implications of the proposed transaction as warranted.

7. Compliance with External Business Conduct Rules for swap dealers.

8. Record-keeping requirements in the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

C. Prohibited Derivative Features

Each Derivative Agreement will be entered into solely in connection with the financing activities of State Issuers, including without limitation, converting interest on all or a portion of a State Issuer's debt from a fixed rate to a floating rate, from a floating rate to a fixed rate, or from one floating rate to a different floating rate.

State issuers will not enter into Derivative Agreements that: (i) are speculative or create extraordinary leverage or risk, (ii) lack adequate liquidity to terminate without incurring a significant bid/ask spread, (iii) provide insufficient price transparency to allow reasonable valuation, or (iv) are used as investments.

D. Senior Management Oversight

The Public Finance Director should be consulted when a State Issuer is considering entering into a Derivative Agreement and a final form should be presented to the Public Finance Director before finalizing. Each State Issuer should appoint a derivative officer that should consult with the Public Finance Director and establish controls and procedures to implement this program which should include regular reporting to the

Public Finance Director and to the State Issuer's governing board. The Public Finance Director should review this policy periodically (at least annually) to take into account business and market changes and should be responsible for insuring the implementation of this Policy and requiring that proposals to undertake Derivative Agreements include, as applicable:

1. The resources required to establish sound and effective risk management systems and to attract and retain professionals with specific expertise with Derivatives;

2. An analysis of the reasonableness of the proposed activities in relation to the organization's overall financial condition and capital levels;

3. An analysis of the risks that may arise from the activities;

4. The relevant accounting guidelines;

5. The relevant tax treatment;

6. An analysis of any legal restrictions and whether the activities are permissible.

Consistent with this policy, the derivative officer and applicable debt managers should take into account risk management, control, and senior management functions to ensure that management is sufficiently independent of the performance of trading activities, thereby avoiding a potential incentive for excessive risk-taking, *i.e.*, when salaries are tied too closely to performance or profitability.

E. Risk Management: Exposure Associated with Derivatives

Before entering into a derivative agreement, a State Issuer should evaluate all the risks inherent in the transaction. A description of each risk and State Issuers' methodology for evaluating such risks are in the table below.

Type of Risk	Description	Evaluation Methodology
Basis risk	The mismatch between actual variable debt service and the variable rate index used to determine swap or other derivative payments.	State Issuers should review historical trading differentials between the variable rate bonds and the index and conduct stress tests to determine potential impacts on the net interest cost.

Tax risk	The risk created by potential tax changes that could affect swap or other derivative payments.	State Issuers should review consequences of tax changes in proposed Derivative Agreements. State Issuers should evaluate the impact of adverse tax consequences, the implementation of withholding taxes, or potential changes in tax law on LIBOR-indexed swaps.
Counterparty risk	The failure of the counterparty to make required payments or otherwise comply with the terms of the swap agreement.	State Issuers should monitor counterparty credit ratings, exposure levels to specific counterparties, and demand collateral in accordance with the terms of the Credit Support Annex when thresholds are exceeded.
Termination risk	Premature termination of a hedge position requiring one of the parties to the Derivative Agreement to make a termination payment and the ability to enter into an equivalent substitute transaction.	State Issuers should compute their termination exposure for all existing proposed Swaps at market value and under a worst-case scenario. State Issuers should work with counterparties and legal counsel to explicitly clarify termination procedures in the documents prior to entering into a Derivative Agreement. State Issuers should periodically update a contingency plan for swap terminations, specifying how they may fund or finance a termination payment and/or replace the derivative.
Rollover risk	The mismatch of the maturity of the underlying State Issuer-Backed Bonds and the Derivative Agreement.	State Issuers should determine their capacity to issue variable rate bonds that may be outstanding after the maturity of the Derivative Agreement.
Liquidity risk	The inability to access or renew a liquidity facility when required.	State Issuers should evaluate the expected availability of liquidity support for variable rate debt.

Credit risk	The occurrence of an event modifying the credit rating of a counterparty or otherwise lowering its creditworthiness.	State Issuers should monitor the ratings and outlooks of its counterparties and any other credit support providers.
Amortization risk	The mismatch of outstanding swap principal versus the outstanding bond principal subject to the hedge.	State Issuers may incorporate one or a combination of par termination call options and lockout bonds. State Issuers should also have the flexibility to terminate a portion of the swap to maintain a matched amortization.
Remarketing risk	The risk that a remarketing agent may be unable to remarket variable rate bonds.	State Issuers should obtain a standby purchase facility or line of credit to provide the funds necessary to purchase the variable rate bonds. State Issuers should monitor the credit ratings and outlook for each liquidity provider and remarketing agent.
Rating Agency Criteria risk	Rating agencies may periodically change their criteria for maintaining credit ratings over the term of the variable rate bonds, which may impact the rates on the variable rate bonds or impose additional duties or restrictions on a State Issuer to maintain the ratings.	State Issuers should have at least annual conversations with the rating agencies regarding any potential changes to their criteria regarding rating variable rate bonds.

Unlike conventional fixed rate bonds, many Derivative Agreements may create continued exposure to the creditworthiness of the financial institutions that serve as the counterparties on transactions. In general, State Issuers should consider the following factors in selecting counterparties:

1. <u>Credit Standards</u>

   Standards of creditworthiness, as measured by credit ratings, will determine eligible counterparties. State Issuers should be authorized to enter into Derivative Agreements with qualified counterparties rated at least "Aa3" or "AA-" or equivalent by any two of the nationally recognized rating agencies (e.g., Moody's Investor Services, Inc. ("Moody's"), Standard and Poor's Ratings Services, A Division of the McGraw-Hill Companies, Inc. ("S&P"), or Fitch Ratings ("Fitch")); or a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. In addition, the counterparty must be a recognized Derivatives dealer and have minimum capitalization of at least $150 million. However, more stringent standards may be necessary depending on the term, size, and interest-rate sensitivity of a transaction, type of counterparty, and potential for impact on the credit rating of a State Issuer or an indenture of a State Issuer.

State Issuers should be authorized to enter into Derivative Agreements with qualified counterparties rated below "Aa3" or "AA-" should the counterparty provide any one of the following:

i. Contingent credit support or enhancement in the form of a guarantee by a guarantor rated at least "Aa3" or "AA-" or equivalent by any two of the nationally recognized rating agencies;

ii. A letter of credit issued by a bank (i) rated at least "Aa3" or "AA-" or equivalent by any two of the nationally recognized rating agencies, and (ii) having at least $10 billion in assets;

iii. Full collateralization.

In addition, State Issuers should be authorized to enter into Derivative Agreements with qualified counterparties rated below "Aa3" or "AA-" with the approval of the Public Finance Director. Any such transaction should be reported to the governing board of the State Issuer at the next regular meeting.

2. Diversification of Exposure

State Issuers should seek to avoid excessive concentration of exposure to a single counterparty, including subsidiaries, by diversifying its counterparty exposure over time and through collateral requirements. See *Collateral Requirements* below.

Before entering into a Derivative Agreement, a State Issuer should determine its exposure to the relevant counterparty and determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of notional amount, but rather how changes in interest rates would affect State Issuers' exposure ("Maximum Net Termination Exposure"). The Maximum Net Termination Exposure should equal the projected worst-case market value for all existing and projected Derivative Agreements that may be paid to an individual counterparty. For purposes of this calculation, the Maximum Net Termination Exposure is equal to: (i) 110 percent of the market value of all existing Derivative Agreements assuming a two standard deviation move in interest rates against the State Issuer, plus (ii) 110 percent of the expected market value of all proposed Derivative Agreements assuming a two standard deviation move in interest rates against the State Issuer. The extra 10 percent for each Derivative Agreement will serve as a conservative estimate of the spread over the mid-market value that is typically included by a counterparty in a Derivative Agreement termination.

State Issuers may make exceptions to the diversification guidelines above at any time to the extent that the execution of a Derivative Agreement provides benefits to the State Issuer and has been prior approved by the Public Finance Director.

3. Collateral Requirements

As part of any Derivative Agreement, State Issuers should not enter into a Derivative Agreement that requires the issuer to post collateral without the approval of the Public Finance Director. However, a State Issuer may require its counterparty to post collateral or other credit enhancement to secure any or all derivative payment obligations from its counterparty.

The following items should be considered when constructing the Derivative Agreement between the State Issuer and the counterparty:

i. State Issuers should minimize threshold limits for collateral posting by the counterparty.

ii. Collateral should consist of cash, U.S. Treasury securities, or U.S. Agency Securities.

iii. Collateral should be deposited with a third party trustee, or as mutually agreed upon between the State Issuer and the counterparty.

iv. A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the Derivative Agreement with the counterparty.

v. The market value of the collateral should be determined on at least a monthly basis.

vi. The Public Finance Director, derivative officer, and other applicable debt managers should determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the State Issuer.

F. Long-Term Financial Implications

In evaluating a particular transaction involving the use of Derivative Agreements, State Issuers should review long-term implications associated with the agreement, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations, and other similar considerations such as the following:

1. Term and size

A State Issuer should determine the appropriate term for a Derivative Agreement on a case-by-case basis. The slope of the swap curve, the shift in the swap curve from year-to-year, and the impact that the term of the swap has on the overall exposure of State Issuers should be considered in determining the appropriate term of any Derivative Agreement. In connection with the issuance or carrying of bonds, the term of a Derivative Agreement between a State Issuer and qualified swap counterparty should not extend beyond the final maturity date of existing debt of a State Issuer, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds. In addition, the total notional amount of all Derivative Agreements related to a bond issue should not exceed the amount of outstanding bonds.

2. Impact of use of liquidity

State Issuers should consider the impact of any variable rate bonds issued in combinations with a swap on the availability and cost of liquidity support for other State Issuers' variable rate bonds.

3. Call option value considerations

When considering the relative advantage of a swap versus fixed rate bonds, State Issuers will take into consideration the value of any call option on fixed rate bonds as well as any right for State Issuers to terminate a Derivative Agreement.

4. Qualified hedges

State Issuers understand that, (1) if payments on and receipts from the Derivative Agreement are to be taken into account in computing the yield on the related bonds, the Derivative Agreement must meet the requirements for a "qualified hedge" under federal tax law (sometimes referred to as an "integrated swap"); and (2) if one of the goals of entering into the Derivative Agreement is to convert variable rate bonds into fixed rate bonds (sometimes referred to as a "super integrated swap"), then certain additional requirements must be met. In both of these situations, the terms of the Derivative Agreement and the process for entering into the Derivative Agreement must be reviewed and approved in advance by bond counsel.

G. Form of Derivative Agreements

Each Derivative Agreement executed by a State Issuer should contain terms and conditions as set forth in an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement, including any Schedules to the Master Agreement, Confirmations and Credit Support Annexes, or other comparable agreement widely used by recognized Derivatives dealers. The Derivative Agreements between State Issuers and each qualified counterparty should include payment, term, security, collateral, default, remedy, termination, calculation methodologies, and other terms, conditions and provisions as the State Issuer deems necessary or desirable.

State Issuers are required to use Designated Qualified Independent Representatives and law firms with recognized experience with Derivatives to assist in preparation of the necessary documents. It is important to have professionals who negotiate Derivative Agreements on a regular basis because the risks mentioned before can be mitigated and sometimes eliminated with good deal terms.

H. Compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

1. Designated Qualified Independent Representative.

   Any State Issuer that is going to enter into any or intends to amend, modify, novate or terminate an existing Derivative Agreement shall be required to engage a swap advisor that satisfies: (a) the qualifications test set forth in 17 CFR Section 23.450(b)(1) (the "Qualifications Test", as further defined below); and (b) with respect to each swap dealer, the independence test set forth in 17 CFR Section 23.450(c) (the "Independence Test", as further defined below) (each, a "Designated Qualified Independent Representative").

2. Qualifications Test.

   In order for a State Issuer's swap advisor to meet the Qualifications Test, the swap dealer that offers to enter or enters into a Derivative Agreement with a State Issuer must have a reasonable basis to believe that such swap advisor:

   (a) has sufficient knowledge to evaluate the transaction and risks;

   (b) is not subject to a statutory disqualification under the Commodity Exchange Act;

   (c) is independent of the swap dealer;

   (d) undertakes a duty to act in the best interests of the State Issuer;

   (e) makes appropriate and timely disclosures to the State Issuer;

   (f) evaluates, consistent with any guidelines provided by the State Issuer, such as this Policy, fair pricing and the appropriateness of the Derivative Agreement; and

   (g) is subject to restrictions on certain political contributions imposed by the Commodity Futures Trading Commission (the "CFTC"), the Securities and Exchange Commission (the "SEC") or a self-regulatory organization subject to the jurisdiction of the CFTC or the SEC (collectively, the "Qualifications Test").

3. Independence Test.

In order for a State Issuer's swap advisor to meet the Independence Test, the swap advisor must be deemed to be independent of the swap dealer. It will be deemed to be independent of the swap dealer, if:

(a) the swap advisor is not and, within one year of representing the State Issuer in connection with the Derivative Agreement, was not an associated person of the swap dealer;

(b) there is no principal relationship between the swap advisor and the swap dealer;

(c) the swap advisor:

(i) provides timely and effective disclosures to the State Issuer of all material conflicts of interest that could reasonably affect the judgment or decision making of the swap advisor with respect to its obligations to the State Issuer; and

(ii) complies with policies and procedures reasonably designed to manage and mitigate such material conflicts of interest;

(d) the swap advisor is not directly or indirectly, through one or more persons, controlled by, in control of, or under common control with the swap dealer; and

(e) the swap dealer did not refer, recommend or introduce the swap advisor to the State Issuer within one year of the swap advisor's representation of the State Issuer in connection with the Derivative Agreement (collectively, the "Independence Test").

4. Terms Included in an Engagement with a Designated Qualified Independent Representative.

In connection with any engagement with a Designated Qualified Independent Representative by a State Issuer, the Designated Qualified Independent Representative shall be required:

(a) to meet and continue to meet the Qualifications Test and the Independence Test or any successor regulations thereto, including, without limitation, complying with policies and procedures reasonably designed to manage and mitigate all material conflicts of interest that could reasonably affect the judgment or decision making of the Designated Qualified Independent Representative with respect to its obligations to the State Issuer; and

(b) in connection with entering into any new Derivative Agreement or amending, modifying or terminating any existing Derivative Agreement, to evaluate, consistent with any guidelines provided in this Policy, fair pricing and the appropriateness of such Derivative Agreement or the amendment, modification or termination thereof.

5. State Issuer Monitoring of Designated Qualified Independent Representative.

The State Issuer shall be required to monitor the performance of each Designated Qualified Independent Representative consistent with the requirements specified in the Qualifications Test.

5. Independent Judgment of State Issuer.

The State Issuer shall be required to exercise independent judgment in consultation with its Designated Qualified Independent Representative in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to this Policy.

7. State Issuer Reliance on Designated Qualified Independent Representative.

The State Issuer shall be required to rely on the advice of its Designated Qualified Independent Representative with respect to transactions authorized pursuant to this Policy and not rely on recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to this Policy.

I. Termination Events and Events of Default

1. Optional Termination by State Issuers

State Issuers should include in all Derivative Agreements provisions granting State Issuers the right to optionally terminate at any time over the term of the agreement at market value. The agreement should not allow the counterparty the same right. The State Issuer, in consultation with the Public Finance Director, should determine if it is financially advantageous to terminate a Derivative Agreement.

2. Other Termination Events Affecting Either Party

Other termination events (allowing termination of the Derivative Agreement at the option of the party not affected by the event) should include, but are not limited to the following:

a. Illegality due to a change in law;

b. Credit Event Upon Merger (credit downgrade or similar result from a party's merger); and

c. Ratings Downgrade. Should a State Issuer or counterparty (or its credit support providers) have one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's, or (ii) BBB- or higher as determined by S&P, or (iii) an equivalent investment grade rating determined by a nationally-recognized rating service acceptable to both parties.

3. Events of Default

Events of Default of a Party allowing the non-defaulting party to terminate the swap agreement should include, but are not limited to the following:

a. Failure to pay or deliver;

b. Breach of Agreement;

c. Credit Support Default;

d. Misrepresentation;

e. Failure to comply with required collateral provisions;

f. Failure to comply with any other provisions of the agreement after a specified notice period; and

g. Merger without Assumption.

4. Payments on Termination

A termination payment to or from a State Issuer may be required in the event of termination of a Derivative Agreement due to a termination event or an event of default. For payments on early termination, Market Quotation and the Second Method will apply, allowing for two-way mark-to-market breakage (assuming the Derivatives are documented under the 1992 form of the ISDA master agreement).

A State Issuer is required to use Designated Qualified Independent Representatives and law firm(s) with recognized experience in derivative transactions to assist when terminating a Derivative Agreement.

Notwithstanding the foregoing, it is the intent of State Issuers not to make a termination payment to a counterparty that has defaulted under the agreement. Prior to making any such termination payment, a State Issuer should evaluate whether it is financially advantageous to obtain a replacement counterparty to avoid making such termination payment, to finance the termination payment through a long-term financing product, or not to make the payment.

J. Security and Source of Repayment

State Issuers may use the same security and source of repayment (pledged revenues) for Derivative Agreements as is used for bonds that are hedged or carried by the Derivative Agreement, if any, but should consider the economic costs and benefits of subordinating regular payments and/or termination payments under the Derivative Agreement. State Issuers should consult with bond counsel regarding the legal requirements associated with making the payments under the Derivative Agreement on a parity or non-parity basis with the applicable outstanding bonds.

K. Specified Indebtedness

The specified indebtedness related to credit events in any Derivative Agreement should be narrowly defined and refers only to indebtedness of State Issuers that could have a materially adverse effect on its ability to perform its obligations under the Derivative Agreement. Debt should typically only include obligations within the same lien as the Derivative Agreement obligation.

L. Methods of Soliciting and Procuring Derivative Agreements

State Issuers should negotiate or competitively bid the price and terms of a Derivative Agreement in consultation with the Public Finance Director.

For a competitive bid, the number of firms solicited should be no fewer than three.

For a negotiated transaction, State Issuers are required to use Designated Qualified Independent Representatives to assist in the price negotiation. Additionally, State Issuers should obtain an opinion from a Designated Qualified Independent Representative that the terms and conditions of any Derivative entered into reflect a fair market value of such Derivative as of the execution date.

M. Ongoing Reporting Requirements

Written records noting the status of all Derivative Agreements should be maintained by a State Issuer and reported to the Public Finance Director and State Issuer's board on an annual basis. These records should include the following information:

1. Highlights of all material changes to Derivative Agreements or new Derivative Agreements entered into by State Issuers since the last report.

2. Market values of each of State Issuer's Derivative Agreements.

3. For each counterparty, State Issuers should provide the total notional amount, the Maximum Net Termination Exposure, the average life of each Derivative Agreement, the available capacity to enter into a Derivative Agreement, and the remaining term of each Derivative Agreement.

4. The credit rating of each counterparty and credit enhancer insuring Derivative Agreement payments.

5. Actual collateral posting by counterparty, if any, per Derivative Agreement and in total by counterparty.

6. A summary of each Derivative Agreement, including but not limited to the type of derivative, the rates paid by State Issuers and received by State Issuers, indices, and other key terms.

7. Information concerning any default by a counterparty to State Issuers, and the results of the default, including but not limited to the financial impact to State Issuers, if any.

8. A summary of any Derivative Agreements that were terminated.

9. A summary of the net variable rate exposure.

10. All records required to be kept pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

State Issuers may hire a Designated Qualified Independent Representative to monitor its Derivative Agreements on a daily basis and to look for ways to reduce the cost of a Derivative Agreement(s) or the exposure that a Derivative Agreement brings.

State Issuers should reflect the use of Derivative Agreements on its financial statements in accordance with GASB Technical Bulletin No. 2003-1. The disclosure requirements include:

1. Objective of the Derivative

2. Significant Terms

3. Fair Value

4. Associated Debt

5. Risks

N. Glossary of Terms

BASIS RISK – Basis risk refers to a mismatch between the interest rate received from the swap contract (i.e. SIFMA or LIBOR index) and the interest actually owed on a State Issuer's bonds. The risk, for example, in a floating to fixed rate swap is that the variable rate interest payments will be less than the variable interest payments actually owed on the hedged bonds.

CREDIT SUPPORT ANNEX – Covers the mutual posting of collateral, if required under the ISDA, to cover exposures of the counterparties to one another based on the net mark-to-market values of all swaps under the agreement.

THE CONFIRMATION – Executed for a specific derivative transaction and details the specific terms and conditions applicable to that transaction (fixed rate, floating rate index, payment dates, calculation methodology, amortization, maturity date, etc.).

COUNTERPARTY – A principal to a swap or other derivative instrument, as opposed to an agent such as a broker.

COUNTERPARTY RISK – The risk that the swap counterparty will not fulfill its obligations as specified by the terms of the contract. Under a fixed payer swap, for example, if the counterparty defaults, a State Issuer would be exposed to an unhedged variable rate bond position. The creditworthiness of the counterparty is indicated by its credit rating. State Issuers has established minimum rating criteria for swap counterparties.

HEDGE – A position taken in order to offset the risk associated with some other position. Most often, the initial position is a cash position and the hedge position involves a risk-management instrument such as a swap.

INTEREST RATE CAP – An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. SIFMA or LIBOR index) and a specified contract rate; effectively establishes a maximum on a variable rate.

INTEREST RATE FLOOR - An instrument that pays off on each settlement date based on the market value of a reference rate (i.e. SIFMA or LIBOR index) and a specified contract rate; effectively establishes a minimum on a variable rate.

INTEREST RATE RISK – The risk that a change in interest rates will cause an increase in relative or absolute debt service costs and negatively impact cash flow margins.

INTEREST RATE SWAP – An interest rate swap is a contract between two parties to exchange cash flows over a predetermined length of time. Cash flows are typically calculated periodically based on a fixed or variable interest rate against a set "notional" amount (amount used only for calculation of interest payments). Principal is not exchanged.

ISDA – The International Swaps and Derivatives Association - the global trade association whose members are dealers in the Derivatives industry. Most swap transactions are traded under standard documentation created by ISDA.

ISDA MASTER AGREEMENT – The primary document for the terms and conditions governing the swaps market. The ISDA Master Agreement contains the terms for events of default, termination events, representations and covenants, early termination provisions and payment calculations.

LIBOR – The London InterBank Offered Rate. The interest rate that the banks charge each other for loans (usually in Eurodollars). This rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day.

NOTIONAL AMOUNT – The stipulated principal amount for a swap transaction. There is no transfer of ownership in the principal for a swap; but there is an exchange in the cash flows for the designated coupons.

ROLLOVER RISK – The risk that the term of the swap contract does not match the term of the related bonds being hedged. Upon the maturity of the swap, the risk may need to be re-hedged, causing a State Issuer to incur re-hedging costs.

TAX RISK – Risks associated with changes in tax laws. All issuers who issue tax-exempt variable rate debt inherently accept risk stemming from changes in marginal income tax rates. This is a result of the tax code's impact on the trading value of tax-exempt bonds. As marginal tax rates decline, the after tax value of tax-exempt income declines, forcing the tax-exempt rates to increase. This risk is also known as "tax event" risk, a form of basis risk under swap contracts. Percentage of LIBOR swaps and certain BMA swaps with tax event triggers, which can change the basis under the swap to a LIBOR basis from BMA, can expose issuers to tax event risk. Also changes in law that result in the payment of withholding taxes and a gross-up of a payment to take into account such tax.

TERMINATION RISK – The risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade for State Issuers or the swap counterparty, misrepresentation, covenant violation by either party, bankruptcy of either party, swap payment default by either party, illegality, and default events under a bond indenture. State Issuers could owe a termination payment to the counterparty or receive a termination payment from the counterparty, depending on how interest rates at the time of termination compare with the fixed rate on the swap. State Issuers should make reasonable efforts to ensure that remedies available to a swap counterparty resulting from State Issuers defaulting on its swap obligation should not infringe on bondholders' rights. These remedies should not be written into the bond indenture. Termination payments should always be subordinate to debt service on State Issuer bonds.

SCHEDULE TO THE ISDA MASTER AGREEMENT – specifies what options for the various terms in the Master Agreement have been selected to govern the derivative transactions executed under the agreement.

SWAPTION – A swaption is an option on a swap. The swaption purchaser has the right to enter a specific swap for a defined period of time. This option can be exercised on a specific exercise date or series of exercise dates. It requires the payment of a premium by the party purchasing the option.

SWAP CURVE – Also known as the SIFMA or LIBOR yield curve. The swap yield curve reflects swap rates at varying maturities. Used in a similar manner as a bond yield curve, the swap curve helps to identify different characteristics of the swap rate versus time.

INVESTMENT POLICY

I. Purpose:

This document sets forth the investment policy of State Issuers, as defined below. This policy serves to ensure that the objectives listed below will be met and applies to: (1) the investment of bond proceeds for which State Issuers have investment responsibility and (2) all other funds related to debt issuance and management with respect to a body corporate and politic.

II. Applicability:

This policy applies to the Indiana Finance Authority ("IFA") and other bodies corporate and politic (collectively, "State Issuers") including, but not limited to, the Indiana Bond Bank, Indiana Housing and Community Development Authority, Indiana State Fair Commission, Ports of Indiana, Indiana Secondary Market For Education Loans ("ISM"), and all state higher educational institutions; provided, however, that this policy shall not apply to those assets of ISM that are not encumbered by trust or otherwise, and instead the Statement of Investment Objectives and Guidelines for ISM as approved by its Board of Directors at a regularly scheduled meeting on April 17, 2014, shall apply to investment of those assets. For purposes of clarity, with respect to Conduit Debt, which is debt issued by a State Issuer and loaned to a Conduit Borrower, the Conduit Borrower, not the State Issuer shall have the investment responsibility for the proceeds of the Conduit Debt. Such proceeds may be invested in the permitted investments provided for in the resolution or indenture pursuant to which such Conduit Debt is issued and shall not be subject to the other provisions of this investment policy.

Any State Issuer may adapt its own investment policy in lieu of this policy, as long as such alternative policy is no less restrictive than this policy or is approved by the Public Finance Director.

III. Objectives

The primary objectives, in priority order, of a State Issuer's investment program should be:

A. Safety

Safety of principal should be the foremost objective of the investment program. Investments should be made in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk will be minimized both by diversification (limiting the potential for loss from any one issuer or any one type of security) and by limiting investments to the types of securities described in Section VI hereof. Market risk will be minimized both by structuring the portfolio so that investments generally mature in time to meet anticipated cash requirements (limiting the need to sell securities prior to maturity) and by investing primarily in shorter-term securities.

B. Liquidity

The investment portfolio should be structured so that investments generally mature in time to meet anticipated cash requirements. Further, since all cash requirements cannot be anticipated, the portfolio should consist primarily of cash equivalents and securities with active secondary or resale markets.

C. Yield

The investment portfolio should be structured with the objective of attaining a market rate of return, taking into account the constraints of safety and liquidity described above. Return on investment is less important than safety and liquidity. Return on investment should typically approximate or exceed the calculated yield on 3-month constant-maturity U.S. Treasury obligations.

D. Full Investment

To the extent practicable, all funds should be fully deployed as earning assets.

E. Minimal Turnover

Securities should typically not be sold, or investment agreements terminated, prior to maturity, with the following exceptions: (1) A declining-credit security can be sold early to minimize the potential loss of principal. (2) A security can be sold and replaced with another if such action improves the quality or yield of the portfolio. (3) A security can be sold early to meet liquidity needs.

IV. Delegation of Authority

Each State Issuer should appoint an Investment Officer that should establish controls and procedures to implement an investment program which should include regular reporting to the Public Finance Director and to the governing board of the State Issuer.

V. Standard of Care

A. Prudence

Investments should be made in accordance with the prudent person standard. This standard provides that an investor should act with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.

Investment officers acting in accordance with this investment policy statement and any written procedures and exercising due diligence, should be relieved of personal liability for an individual security's credit risk or market price changes, provided that deviations from expected results are reported in a timely fashion and that appropriate action is taken to control adverse developments.

B. Ethics and Conflicts of Interest

Investment Officers should refrain from personal business activity that could conflict with the proper execution and management of a State Issuer's investment program, or that could impair their ability to make impartial decisions. Investment Officers should also maintain knowledge of all applicable laws, rules, and regulations; and not knowingly violate, or participate or assist in the violation of, such laws, rules, and regulations.

VI. Permitted Investments

A. A State Issuer is only permitted to invest indentured funds in those securities authorized by the applicable trust indenture and statutes, which authorizations are hereby made a part of this policy. In addition to restrictions under indentures, it is the policy of a State Issuer to limit allowable investments to the following types of securities:

1. U.S. Treasury securities (*e.g.* bills, notes, bonds, SLGS, STRIPS, and TIPS), which are backed by the full faith and credit of the U.S. government

2. Federal agency obligations (including both federally related institution securities and federally sponsored agency securities), including, but not limited to, Ginnie Mae, Fannie Mae, Freddie Mac, Farmer Mac, and Federal Home Loan Bank debt
   - any full-faith-and-credit securities are permitted
   - non-full-faith-and-credit debt securities are permitted if rated in one of the two highest rating categories by one of the following rating agencies: Fitch, Moody's, and Standard & Poor's (the "Rating Agencies")

3. Mortgage pass-through securities issued by Ginnie Mae, Fannie Mae, or Freddie Mac
   - any full-faith-and-credit securities are permitted

  - non-full-faith-and-credit pass-through securities are permitted if guaranteed by the issuing agency, and if the issuing agency is rated in one of the two highest rating categories by one of the Rating Agencies

4. Obligations of state and local governments in the United States and their political subdivisions, if rated in one of the three highest rating categories by one of the Rating Agencies or such obligation is a pre-refunded obligation that has been legally defeased with any investments permitted in this policy

5. Repurchase agreements, if at least 102% collateralized by any of the above

6. Money market mutual funds regulated by the Securities and Exchange Commission
   - only no-load funds are permitted (*i.e.* no commission or fee should be charged on purchases or sales of shares)
   - permitted funds will be those that limit assets of the fund to U.S. Treasury securities, federal agency securities, and repurchase agreements collateralized by the same; or that are rated in the highest rating category by one of the Rating Agencies
   - these funds seek to maintain a stable net asset value of $1.00 per share
   - by definition these funds will meet the requirements for portfolio maturity, portfolio quality, and portfolio diversification in Rule 2a-7 under the Investment Company Act of 1940

7. Commercial paper, if rated in the highest rating category by one of the Rating Agencies, with a maturity not to exceed 370 days

8. Investment agreements, if the provider is rated the equivalent of Aa3 or higher by one of the Rating Agencies

9. Time deposits (includes Certificates of Deposits, Money Market Accounts, Savings, etc) with maturities not exceeding five years, in state- or nationally-chartered banks whose deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”), with balances not to exceed the FDIC coverage limit, or in any financial institution designated by the Indiana State Board of Finance as an approved depository for public funds, subject to the Indiana Board for Depositories’ Rules of Collateralization

B. Additional securities may be added to the above approved list with the prior approval of the Public Finance Director and the governing board of the applicable State Issuer.

C. Investments are not permitted in certain derivatives, nor in certain mutual funds which invest primarily in such securities. Investments specifically prohibited are those characterized as being illiquid, highly volatile and difficult to value. Prohibited securities include, but are not limited to, mortgage derivatives such as Z-bonds, PAC-2s, and Re-REMICS.

D. Pursuant to IC 4-4-11-15(50), certain swap agreements (as defined in IC 8-9.5-9-4) are permissible as part of the bond issuance process, pursuant to the guidelines of IC 8-9.5-9-5 and IC 8-9.5-9-7 (Appendix E). These agreements include rate swap agreements, basis swaps, forward rate agreements, interest rate options, rate cap agreements, rate floor agreements, rate collar agreements, and any similar agreements (including any option to enter into any such agreement).

E. At times, funds may be invested for the betterment of the state economy or that of local entities within the state. These development-oriented investments may not fit the permitted investments listed above. In the future, any such investments will be subject to the prior approval of the Public Finance Director and the governing board of the State Issuer. The Indiana Seed Fund I, LLC, an existing equity investment under the former Indiana Health and Educational Facility Financing Authority, is an example that will not be subject to the requirements herein and was previously approved by that board.

VII. Investment Parameters

A. Maximum Maturity

To the extent possible, investments will be matched with anticipated cash flow requirements. Unless matched to a specific cash flow, a State Issuer should not typically invest in securities maturing more than five years from the date of purchase. However, reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years, if the maturities of such investments precede the expected use of funds.

B. Average Maturity

The average weighted maturity of the portfolio should not typically exceed two years.

C. Diversification

Investments should be diversified by type of security and issuer. Except for cash equivalents and U.S. Treasury and Agency securities, the total portfolio should consist of no more than 40% of any single type of security.

D. Investment Directives

In lieu of specific investment directives, an Investment Officer may issue general directives to the appropriate trustee for the investment of certain funds. These directives should be consistent with this Policy and the appropriate trust indenture.

VIII. Authorized Broker/Dealers

A. All financial institutions currently serving as trustee for any State Issuer or component unit of a State Issuer are authorized to provide investment services, including investment advice, to a State Issuer. In addition, the Investment Officers should maintain a list of broker/dealers authorized to provide a State Issuer with investment services and advice. Such list should be reported to a State Issuer on an annual basis. Broker/dealers may be primary dealers or regionally recognized dealers. However, any broker/dealer which desires to serve in any capacity other than as an advisor should provide a State Issuer with the following in order to be initially approved and update the same annually, every July 1, for as long as the Authorized Broker/Dealer conducts business with the IFA:

- Current audited financial statements
- Copies of their firm's Financial Industry Regulatory Authority ("FINRA") BrokerCheck Report, including the related reporting information for all individuals who will work on the IFA Account
- Authorized Brokers/Dealers are required to update the IFA if any new Disclosure Events are posted to their FINRA BorkerCheck Report regarding the firm or any individuals working for the firm between yearly disclosures
- Certification of having read this Investment Policy

B. Each Investment Officer is authorized to enter into safekeeping agreements, wire transfer agreements or other agreements necessary or useful in administering this policy. A background check is required for each Investment Officer prior to this authorization.

C. The Investment Officers should conduct an annual review of the financial condition and registration of all broker/dealers on the authorized list.

IX. Safekeeping and Custody

A. Communication

All investment transactions, including, but not limited to, those completed by telephone, should be supported in writing and approved by an Investment Officer. Written communication may be made by facsimile on State Issuer's letterhead.

B. Book Entry

A State Issuer should strive to invest in book-entry securities, thus avoiding physical delivery of securities. No securities should be physically stored or kept in the offices of a State Issuer.

C. Custodial Safekeeping

Securities purchased from any bank or dealer, including collateral when appropriate, should generally be placed with the appropriate trustee or with an independent third party for safekeeping.

Any security that is able to be wired over the FedWire will be kept safe in a customer or trust account in a Federal Reserve Bank through the appropriate custodial bank.

Any security not able to be wired over the FedWire, that is held by the Depository Trust Corporation (DTC), should be held in the name of a State Issuer or trustee through the appropriate custodial bank.

Securities may be held by a broker/dealer to the extent the broker/dealer serves as an agent for a State Issuer or the appropriate trustee. No securities will be held by a broker/dealer without evidence of adequate Securities Investor Protection Corporation (SIPC) insurance (or protection judged to be equivalent by a State Issuer or the appropriate trustee).

D. Delivery vs. Payment

All securities will be held in accounts in the name of the State Issuer or the appropriate trustee. Securities will be deposited prior to the release of funds. Securities held by a third party custodian will be evidenced by safekeeping receipts.

X. Performance and Reporting

A. Annual Report

The Investment Officers should prepare an investment report at least annually which should provide a clear picture of the status of the portfolio and transactions made over the preceding year. Such report should be designed to allow the governing body of a State Issuer and the Public Finance Director to ascertain whether the investment activities during the reporting period have conformed to this policy.

B. Performance

The portfolio should achieve a market rate of return during a market environment of stable interest rates. Portfolio performance should be compared at least annually to the yield on 3-month U.S. Treasury obligations. Such performance comparison should be included in the annual report.